

SECURITY INFORMATION

12 May 1952

MEMORANDUM FOR: Director of Central Intelligence

THROUGH : Deputy Director for Intelligence

SUBJECT : Comments on Fourth Progress Report on NSC 104/2

Document No.
 Review of this document by CIA was ✓
 determined that
☐ It has no relation to desires C
☒ It contains information of CIA i
 interest that must remain
 classified to D

☐ It contains information of CIA interest
 Date 12 May 1952

I. Problem

To evaluate the statements in subject report that criticize intelligence support for the Economic Defense programs and to provide the essential elements for a response thereto by the DCI.

II. Discussion

A. "General inadequacy of intelligence research . . . particularly basic research or factfinding." (page 10). This shotgun blast seems pretty ineffective against the quantity and quality of RIR's, SIC studies (Tab A), and ad hoc intelligence support provided to the Economic Defense Advisory Committee (EDAC) by CIA/RIR (Tab B).

B. "Scarcity of trained personnel" (page 11). CIA's recruitment and training program has in the past year and a quarter increased its staff of economic analysts of generally superior competence from 121 to 267. All of their work contributes directly or indirectly to economic defense intelligence.

C. "Ineffective organization of personnel" (page 11). CIA/RIR concentrates its intelligence production on the Soviet Bloc economy leaving by mutual consent the rest of the world to State and other agencies. The RIR organization is functional, by industry and commodity, but it also maintains a division of 44 persons exclusively charged with current support of economic defense activities (Tab C).

D. "Inadequate coordination of agencies" (page 11). Interagency coordination on a long-range basis is achieved through ONE and the Economic Intelligence Committee. Recognizing the need for day-to-day coordination of economic defense intelligence, CIA on 7 March informally concurred in proposal to create a special Intelligence Working Group under EDAC and agreed to chair and provide administrative and secretarial support for it; yet seven weeks elapsed before Director, EDAC, formally proposed this long overdue measure.

E. "Low priorities accorded economic defense assignments by general economic research staffs" (page 11). Priorities are a delicate matter: if ephemeral spot requirements are constantly accorded overriding priorities, basic research programs which can and are providing a bank of sound intelligence will never be accomplished. Inasmuch as 14 percent of RIR's analysts are working full-time on the foreign trade program of the Soviet Bloc which amounts to less than 2 percent of its gross national product, it would seem difficult to criticize the priority afforded Economic Defense Intelligence by CIA as being too low. (Tab C).

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25X1C8 F. Particularly "glaring deficiencies" in fields of shipping and finance (pp 18, 19, 21). Shipping has been covered in great detail by CIA and ONI (Tab D), e.g., joint survey [redacted] on China. Finance presents a particularly difficult problem but is being pursued vigorously using all possible sources (Tab E).

G. "Comprehensive re-evaluation of Soviet Bloc vulnerabilities is overdue" (page 22). This is a continuing process to which the basic resources of the intelligence community are continuously directed. A great wealth of material has been produced and is now in production. Economic Defense aspects of Soviet vulnerabilities are a relative drop in the bucket quantitatively and qualitatively. For example, no additional effort is required to show that oil drilling rigs and ball bearings are critical to the Bloc and yet the Administration has failed to exercise its power to interfere with certain known shipments of these from Western Europe to the Bloc.

III. Conclusion

The intelligence portions of the report are in large part invalid and insofar as implicitly directed at CIA are generally inapplicable, intemperate and misconceived. Repetition of these in the widely circulated Current Economic Developments (28 April 1952, page c) was a disservice to the intelligence community. In relation to the needs of other important consumers of intelligence, the Economic Defense program has received at least its proportionate share of support. The major deficiency is not so much the production of basic intelligence as the timely receipt, evaluation and analysis of intelligence to meet the spot requirements of the Economic Defense program on an ad hoc basis. Recent steps to establish a continuous intelligence working group to support EDAC should largely cure this.

ROBERT AMERY, JR.
Assistant Director
Research and Reports

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TAB

Tab A

National Intelligence Estimates
Relating to the Economic Defense Program

Specifically Relevant

- NIE-22 Vulnerabilities of the Soviet Bloc to Economic Warfare (completed)
- 22-5 Vulnerabilities of Communist China (completed)
- 22-20 Possible Consequences of Certain US Courses of Action in Communist China and Korea (completed)
- 22-27 The Effect of Possible Western Measures to Bring Economic Pressure to Bear on Communist China (in process)
- NIE-59 Relative Strategic Importance of East-West Trade to the Soviet Orbit and to the Rest of the World (in process -- delayed by tardy Department of Commerce contribution)

Generally Relevant

- NIE-10 Communist China (completed)
- NIE-13 Soviet Control of the European Satellites and Their Economic and Military Contributions to Soviet Power Through Mid-1953 (completed)
- NIE-40 Potential Military, Economic, and Scientific Aspirations to the USSR resulting from the Acquisition of Eastern Europe Before Mid-1952 (in process)
- NIE-56 Likelihood of the Loss of Important Economic Resources in Selected Foreign Areas
- NIE-65 Soviet Capabilities for a General War Through Mid-1953 (in process)
- 22-10 The Strength and Capabilities of Soviet Bloc Forces to Conduct Military Operations Against NATO (completed)

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Reports of the Economic Intelligence Committee
Relating to the Economic Defense Program

Specifically Relevant

EO-2-1 Status and Effectiveness of Trade Controls Against
Communist China (completed)

The Impact of Shipping Controls on Western Europe and
the Soviet Bloc (in process in the Transportation
Subcommittee)

Generally Relevant

Research Contributions to National Intelligence Estimates (see
National Estimates)

EO's 40 and 56 -- Contributions have been delivered to
ONI. Complete research studies to be
published separately by NIC

EO-59 (in process)

EO-2- Economic Capabilities for War of the USSR and its Satellites
(in process)

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Tab B

Chronology of CIA Participation in Economic Defense Activities

1. CIA participation in intelligence support of export controls dates from April 1946, shortly after licenses were first required for the export of commodities to the Soviet Bloc. In this early period CIA assisted inter-agency representatives in the drafting of the first embargo list. Following completion of this preliminary list, CIA was asked to chair a Technical Steering Committee, which was to make a more thorough study of commodities for the purpose of establishing strategic ratings. CIA accepted this responsibility, and the recommendations culminating the work of the Committee for the setting up of the revised security export control lists were accepted in September 1948 by Secretary Sawyer and ECA Administrator Hoffman.

2. CIA has continued to render intelligence support since this early period. A CIA representative has sat with all the principal Commerce Department interagency committees on export control. CIA representatives have assisted in the refinements of the EE export control lists and additions thereto when intelligence has revealed Soviet attempts to procure highly strategic items through devious means. Shipments of strategic items indirectly to the Soviet Bloc have been stopped from time to time as a result of timely intelligence presented by CIA.

3. In the fall of 1950 CIA assisted in briefing and preparing documents for the US delegation to the first Tripartite and COMCON sessions on export controls.

25X1X4 [REDACTED] CIA has continued to render intelligence support for US negotiations for parallel action to control the export of strategic items to the Soviet Bloc.

25X1X4

4. When the NSC Special Committee on East-West Trade was set up in 1950 to consider the special problems in connection with the Cannon and Ken Amendments, CIA accepted the responsibility of full membership on the Committee and its drafting subcommittee. Assistance was provided in reviewing the trade of approximately 66 countries with the Soviet Bloc and in supplying specific intelligence on subjects of concern to the Committee.

5. Upon the establishment of a series of interagency committees to advise the Administrator of Mutual Defense Assistance Act, CIA was requested to participate in the work of committees and working groups in which the intelligence aspects of problems are considered. At present, CIA is represented on the Advisory Committee on Economic Defense, the Technical Staff and on working groups on Title II, Collective Measures, Free Ports and Transit Trade and Preclusive Buying. An additional working group on intelligence which is to be chaired by CIA is being formed.

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Contributions

1. Interagency committee work in which the contribution is for the most part presented orally in the course of the committee deliberations.

(a) Evaluation of the strategic importance to the Soviet Bloc of items under consideration for:

- (i) placement under security export control;
- (ii) upgrading on security lists; or
- (iii) retention on security lists.

(b) Advice in the formulation of security list definitions which identify the grades and types of items most strategic to the Soviet Bloc.

(c) Appraisal of the effect upon the Soviet war potential of specified levels of exports of particular items from the Free World to the Soviet Bloc.

(d) Review of export license applications including

- (i) detection of questionable end-uses of the strategic item requested;
- (ii) reports on trading activities of consignors or consignees outside the US who are suspected of trading with the Soviet Bloc directly or indirectly.

(e) Presentation of information indicating the need for effective controls over transit free-port trade and over shipping, including chartering and bunkering of vessels.

(f) Assistance in the drafting of committee reports to insure, so far as possible, that

- (i) the intelligence aspects of the problem are considered;
- (ii) the statements made are consistent with intelligence reports and estimates; and
- (iii) that unclassified reports and releases do not involve undue security risks.

2. Memoranda in response to requests from other agencies.

(a) Request by US Munitions Board for close cooperation in developing intelligence for use in export control support work. Illustrations of the types of data supplied to the Board are:

- (1) CIA/RR IN 356, "Strategic Value of Mining Machinery to the Soviet Orbit," 21 June 1951.

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(ii) CIA/RR IM 357, "Strategic Value of Construction and Road-Building Machinery to the Soviet Orbit," 21 June 1951.

(iii) Ad hoc memoranda on strategic importance of a large number of highly specialized types of equipment, including such items as: glass vacuum pumps; compressors; optical curve generators; coal; tar; pitch; coke, including coke flour; core drills other than chilled shot type, including those used for blast-hole drilling; wheel and track-laying tractors, diesel or gasoline powered, 60 belt HP and over; bituminous pavers; middle-sized alloy steel ball and roller bearings; crystal diodes of a kind used on frequencies of 500 megacycles per second; contr ctors' off-the-road trucks, wagons and trailers; coal-cutters, all types; underground mine types of loading machines.

(b) Requests by OIT and the Export Policy Staff, Commerce Department, for intelligence material bearing on questions under discussion in working groups or that are not resolved in interagency committee discussions. Illustrative responses are ad hoc memoranda on:

- (i) exports of ball bearings from RIV (Italy) to Soviet Bloc.
- (ii) production of synthetic rubber in the Soviet Bloc.
- (iii) uses and weight of standard rails and narrow gauge rails in the USSR.

(c) Requests by Bureau of Economic Affairs and Economic Defense Staff, State Department for:

(1) Support data to be used in SOCOM in negotiations for the establishment of quantitative controls over I/L II items. CIA contributed documentation on Soviet needs and availabilities for approximately half of the I/L II items, and the State Department for the other half. OIT supplied data on strategic uses of the items.

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(d) Requests by ECA (and now NEA) for a review of specific studies on East-West trade in various commodities including coal, grain, timber, potash, tin, tungsten, manganese, and a summary study of East-West trade. CIA comments on the latter were published as CIA/RR MP-79.

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3. Other CIA Contributions

(a) Collection, evaluation and dissemination to proper enforcement authorities in Department of Commerce of current intelligence regarding firms or individuals, primarily outside of the US, who are suspected of engaging in commercial activities contrary to the security interests of the US.

(b) Transmission to appropriate officials in the Department of State and NSA (now NSA) of spot intelligence relative to clandestine purchases of strategic items and excessive or unexplainable trade in strategic items, with the thought that delivery of such items to the Soviet Bloc might be prevented.

(c) Furnishing information to NSA, State and Munitions Board in response to inquiries from those agencies as to the security implications of specific exchanges of strategic raw materials and industrial equipment among friendly Western countries, including exports from the US.

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Tab C

**Organization of CIA/RR Personnel
Concentrating on Economic Defense Intelligence**

1951 Organization		1952 Revised Organization	
Analysis Division (part)		Economic Warfare Division (entire)	
	Number Authorized		Number Authorized Maximum Under Budget Limits
		Office of Chief	6 7
Economic Warfare Branch	13	Export Control Branch (ACEP support, EDAC support, Lists and Regs.)	20 11
Export Control Support Branch	13		
		Economic Measures Branch (Transportation Controls, Blacklisting, Preclu- sive Buying)	10 10
		Arms Branch	13 8
		Commodities Branch	16 8
TOTAL	26	TOTAL	73 44

Statistical Support for Statements in Para. II E

Economic Warfare Division analysts 33
 Strategic Division analysts exclusively on Economic Warfare 9

42, which is 14% of the 297 analysts in the economic divisions of OSR. In addition, it can safely be said that at least 10% of the effort of all other analysts is in support of this activity; therefore not less than 24% of CIA/RR's total effort is contributed to the Economic Defense program.

By contrast the Bloc's total imports are about \$1,700,000,000 which is 1.33% of its gross national product of \$127,500,000,000.

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Tab D

Shipping Intelligence Produced by the
Office of Research and Reports Relating to
the Economic Defense Program

Specifically Relevant

"Impact of Shipping Controls on Western Europe and the Soviet Bloc."
(This is now in the hands of a Working Group of the TSC with a probable
completion date early in June.)

Technical Memoranda and Projects

(1) Survey of Merchant Ship Movement Reporting Activities of the
Department of the Navy. (Completed September 1951.)

(2) Proposal for A Watch of Merchant Shipping Activities on
Soviet Bloc Account including an Expanded Collection and Analysis
Program. (This was referred to the EIC Subcommittee on Transportation.)
(Completed October 1951.)

(3) Contribution concerning Ship Sales and Charters to Soviet
Bloc used in memorandum "Information and advice to Support US Position
at UNCTAD Meeting of Shipping Experts." (Completed November 1951.)

(4) Special project on: (a) number and tonnage of British flag
vessels trading with Chinese ports, (b) number of British vessels under
charter to Orbit nations (TS). (Collaboration with D/L.) For the
DOI. (Completed January 1952.)

25X1X7 (5) Review and critical analysis of ONI contribution [redacted] 25X1X7
[redacted] on ocean trade with Communist China. (Completed February
1952.)

(6) Ships Chartered to the Soviet Bloc during 1951. (Collabora-
tion with D/L.) (Completed March 1952.)

(7) Data on Activity of 36 Pinios recently under charter to the
USSR. (Completed April 1952)

(8) Embargo and Blockade Against Communist China. (Contribution
to SIP-3.) (Completed April 1952.)

(9) Contribution to IP-214 for NIF-32: Estimate Effects of
Korean Operations on the Economic Position of the Chinese Communist
Regime. (Completed May 1952.)

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Generally Relevant

"Survey of Intelligence on Merchant Shipping Activities Concerning the Soviet Bloc." (In process.) (OIR proposed and steered this project through the TSC to the EIC. Project defines gaps in present intelligence and recommends steps to be taken to develop new sources and provide more comprehensive coverage.)

OIR 11-51: Volume and Character of Soviet Flag Ocean Traffic. (Completed March 1952.)

Progress Report on HOC 78 Series (TS) (OIR in active consultation with Treasury Department, Coast Guard and Navy to effect coordination of shipping intelligence bearing on security of US ports.) For DCI. (Completed March 1952.)

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Tab E

Financial Intelligence Produced by the Office of Research and Reports
Relating to the Economic Defense Program

Specifically relevant

- (1) IP-258, Contribution to NIE-58: Relations between Chinese Communist Regime and the USSR. (Completed January 1952.)
- (2) Contribution to MP-57: Soviet Union and European Satellite Military Expenditures and Gross National Product -- 1949/1952. (Completed May 1952.)
- (3) IP-274: Trade and Finance in the Far East. (Completed April 1952.)
- (4) IP-255, which is our contribution to SE-20: The Effect on the Communists of Certain U. S. Courses of Action. (Completed December 1951.)
- (5) Contribution to SIE-3 (SE-27): Embargo and Blockade Against Communist China. (Completed April 1952.)
- (6) IP-296: Summary of Soviet Delays in Fulfilling Obligations Under Trade Agreements. (Completed April 1952.)

Generally relevant*

- (1) Memorandum for D/A, Ken Amendment Committee Members on Israeli Trade in Strategic Materials with the Soviet Orbit. (Completed August 1951.)
- (2) Contribution to MP-70, for OIR on Soviet Bloc Purchases, Overt and Covert, of Non-ferrous Metals. (Completed November 1951.)
- (3) IP-225: Sources of Rubber for USSR and Satellites, July 1951 to July 1952. (Completed September 1951.)
- (4) Contribution to ORR-6-51 for NIE-33: European Satellite Power Complex. (Completed July 1951.)
- (5) Contribution to IP-214 for NIE-32: The Effect of Operations on Korea on the Chinese Communist Regime. (Completed May 1951.)
- (6) Contribution to IP-213: Chinese Communist Seaborne Imports, August 1950 to January 1951, prepared at the request of OIR, published as a division memorandum. (Completed May 1951.)
- (7) Participation in EIC survey of intelligence research in the field of international trade and finance. (in process.)

*Many of these studies are listed as generally relevant because they relate to intelligence on trade from which intelligence on finance can be derived.

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DEPARTMENT OF STATE

FROM: London

Control: 3323
Rec'd April 7, 1952
3:23 p.m.

TO: Secretary of State

NO: 4465, April 7, 3 p.m.

1. CIA RR HP-88

HP-88 of April 2, 1952 says Soviet synthetic rubber production will be 197,000 tons for year beginning July 1, 1952. NIK-40 of Nov 20, 1951 estimates 1951 production at 172,000 tons. Soviet affairs, OIR Report No. 4500.27 of March 1951 says production was between 220,000 tons and 270,000 tons in 1950. Can anything be done to reconcile these statements?

2. CIA paper contains footnote on P. 1, stating that USSR had accumulated surplus of natural rubber of 150,000 tons by end 1949.

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25X1C8a

25X1C8ax

Intelligence studies which do not (rpt not) cite sources correctly can be rather misleading.

3. Intelligence data furnished Armstrong also inadequate in other respects and almost useless in any negot. Is it better to admit we know little and have deduced less about Soviet rubber position?

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AD:Z

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